

AS DELIVERED

Remarks of

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U.S. Department of Commerce**

before the

NEXT Regional Conference

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**The State of Minority Business Enterprise:
Pursuing a National Strategy of Innovation and Competition**

Introduction

Good morning. To the distinguished speakers, panelists, the University of Massachusetts faculty, public officials, minority business entrepreneurs, attendees, and in particular to my former Harvard professor, Ms. Ellen Hume; I bring you greetings on behalf of the President of the United States and the U.S. Secretary of Commerce Carlos M. Gutierrez. Thank you for your presence and participation in the 2007 NEXT Regional Conference.

The primary purpose of my remarks this morning is threefold: **1)** to make the business case why the growth of minority business enterprise is a national priority, **2)** to challenge the national minority business enterprise community to pursue a national strategy of innovation and competition, and; **3)** to focus attention on the importance for emerging businesses and minority business enterprises to foster business-to-business partnerships and strategic business clusters.

The National Economic Outlook: a Snapshot

The American economy remains strong and continues to grow. The economic outlook remains positive. More than 180,000 new jobs were created in March, according to the Bureau of Labor Statistics, making March 2007 the 43rd consecutive month of job growth. The unemployment rate remains historically low at 4.4 percent, and since August of 2003, more than 7.8 million jobs have been created, with nearly 2 million jobs created over the last 12 months.¹ Secretary of Commerce, Carlos M. Gutierrez noted the jobs report "...continues to signal that we have real momentum."²

The Secretary also praised the February *International Trade in Goods and Services* report, which showed U.S. exports increased 10.1% to \$250 billion

¹ Job Creation Continues – *More Than 7.8 Million Jobs Created since August 2003*. Press Release, the White House Office of Communication, 04-06-07.

² Brian Blackstone, U.S. *Non-Farm Payrolls Grow by 180,000 Jobs*, Dow Jones newswires, 4-6-07, Washington, D.C.

during January and February of 2007, compared to the same period in 2006. The trade deficit narrowed by 9.3% during the same period.³

Pursuing a National Strategy of Innovation and Competition

Whether you agree or disagree with Thomas Friedman, that the “world is flat,” I hope you do appreciate that the differential of time and space has collapsed and we now live in a world of real-time global enterprise, competition and communication. Like it or not, we must be vigilant about the Nation’s competitiveness and our collective will and skill to adapt and innovate.

In February of 2006, President Bush, through a report by the Domestic Policy Council, Office of Science and Technology, launched the *American Competitiveness Initiative*. In the introduction of the report the President noted the following: ⁴

- *“...One of the great engines of our growing economy is our Nation’s capacity to innovate...”*
- *We know that as other countries build their economies and become more technologically advanced, America will face a new set of challenges...*
- *The bedrock of America’s competitiveness is a well-educated and skilled workforce...*
- *As we increase investment in research and development, strengthen education, and provide more flexibility training for workers, we continue to keep taxes low, avoid unnecessary and burdensome regulations, promote free trade, maintain the integrity of our markets, and foster entrepreneurship...”*

The report further underscores the President’s message: “Our prosperity is no accident. It is the product of risk takers, innovators and visionaries. We owe our global leadership in large measure to our willingness to build an economy and culture that welcomes and encourages innovations and flexible,

³ Carlos M. Gutierrez, *Trade Deficit Narrows in February*, Press Release, Friday April 13, 2007, U.S. Department of Commerce.

⁴ *American Competitive Initiative: Leading the World in Innovation*, Domestic Policy Council, Office of Science and Technology Policy, The White House, Washington, D.C., February, 2006

open markets. . . . The enhanced innovation capacity of our economic competitors makes it increasingly important to make our own economy more flexible and responsive.”⁵

What is most rewarding to me about the report is that as a policy instrument, it has encapsulated the voices of wisdom and intellectual strategies of the world’s premier thought leaders on competition and innovation. For example:

- “America is an entrepreneurial economy” (Dr. Peter Drucker)⁶
- “The heart of entrepreneurship is innovation.” (Howard H. Stevenson and David E Gumpert)⁷
- “...competition has intensified dramatically over the past decades in virtually all parts of the world.” (Dr. Michael Porter)⁸
- [beware] “innovation is back on top of the corporate agenda.” (Dr. Rosabeth Moss Kantor)⁹ and more recently;
- Dr. Hernando de Soto in his book the *Mysteries of Capitalism*, where he painfully seeks to answer why capitalism triumphs in the west and fails everywhere else, and finally;
- Dr. Vijay Govindarajan and [M]Dr. Chris Trimble’s work on the *10 Rules for Strategic Innovators*, focusing on the challenges of building growth businesses inside existing organizations.

Throughout this fiscal year the Administration, and in particular the U.S. Department of Commerce, will promote and implement the President’s American Competitiveness Initiative. For example, the Minority Business Development Agency has chosen the theme “Celebrating the Legacy of Innovation and

⁵ ACI, at page 4.

⁶ Peter F. Drucker, *Our Entrepreneurial Economy*, Harvard Business Review, January-February 1984, pages 59-64.

⁷ Howard H. Stevenson and David E. Gumpert, *The heart of entrepreneurship*, Harvard Business Review, March-April 1985.

⁸ Michael E. Porter, *On Competition*, A Harvard Business Review Book, Boston, Massachusetts, , 1998, at Introduction

⁹ Rosabeth Moss Kantor, *Innovation: The Classic Innovative Traps*, Harvard Business Review, November 2006, p 73-83.

Competitiveness” for the 25th Anniversary of Minority Enterprise Development (MED) Week. Our national MED Week Conference will be held September 13-14, 2007, in Washington, D.C. and we have plans to release a paper on innovation challenges and opportunities faced by minority-owned firms.

The vision of MBDA is to serve as an entrepreneurial organization serving entrepreneurs. Our mission is to enhance the growth and expansion of minority business entrepreneurs nationally. Our philosophy is centered on the belief that as an entrepreneurial organization within a federal system we must resist the tendency to operate inefficiently, but instead strive to master the discipline of executing flawlessly. We must always be cognizant of onerous regulatory red tape, be responsive to our clients and avoid endless dialogue with internal and external governmental deliberation which does not manifest in the timely execution leading to results.

At MBDA, we are committed to a long-term policy of strategic growth among the Nation's minority business entrepreneurs which we hope will result in *entrepreneurial parity*. Our vision of entrepreneurial parity is when the percentage of minority-owned firms, their gross revenues and number of employees is consistent with the percentage of minority population in the United States. In order to achieve this long-term policy strategy we believe minority business enterprise should be a national priority.

Minority Business Enterprise: The National Priority - Making the Business Case

Over the past two years, MBDA has joined with the U.S. Census Bureau to release the results of the *2002 Survey of Business Owners*. It is generally agreed the news about the state of minority business enterprise is **positive!** Specifically, the trend and trajectory of minority business enterprise growth in the number of firms and increase in revenues is positive and upward. The *Survey of Business Owners* noted minority business enterprises had out-paced the rate of growth for firms and revenues of all U.S. businesses. Here is a quick summary:

The number of all U.S. firms, including publicly held firms, grew 10%

- The number of Black-owned firms grew -- 45%
- The number of Hispanic-owned firms grew -- 31%
- The number of Asian-owned firms grew -- 24%
- The number of women-owned firms grew -- 20%
- The number of Hawaiian and Pacific Islanders-owned firms grew -- 67% ¹⁰

The receipts of all U.S. firms, including publicly held firms, grew 22%

- Receipts for Black-owned firms grew -- 30%
- Receipts for women-owned firms grew -- 16%
- Receipts for Hispanic-owned firms grew -- 22%
- Receipts for Asian-owned firms grew -- 13%

Massachusetts SBO Data

“In 2002, there were over 49,000 minority firms in Massachusetts generating \$8.7 billion in gross receipts. These firms also employed about 64,250 workers. Minority firms represented 9% of all ‘classifiable’ firms located in the state. The number of minority firms in Massachusetts increased by 26% between 1997 and 2002, compared to 5% for all ‘classifiable’ firms in the state. Massachusetts had the 21st largest minority population, numbering about 1.2 million or 18% of the state’s total population.” ¹¹

The story behind the news is increasingly, more minorities are seeing themselves as *business owners* capable of providing products and services, competing in the marketplace and generating wealth for their families and their communities. The 2002 data from the Census gives validation to President Bush’s vision for America to achieve the goal of an “**ownership society.**”

The growth and expansion of MBEs is not only cause for celebration, but equally significant is recognizing how important minority business development is to the nation’s economic strength and global competitiveness.

The Challenges: Business-to-Business Linkages and Strategic Clusters

One *challenge* minority-owned firms face today is the reluctance to recognize the United States is fully engaged in a world-wide economy. Far too

¹⁰ **Note:** This is the first time U.S. Census has isolated demographic data (SMOBE-SBO) on Hawaiian and Pacific islanders separate from the Asian grouping. Therefore, this data may appear skewed.

¹¹ MBDA 2002 The State of Minority Business: Massachusetts

many minority-owned businesses still define their market as a five to ten-mile radius from their front door. They see themselves, for honorable reasons, as serving a neighborhood or local community. Again, these are honorable intentions.

However, these firms must recognize and embrace the new reality that they have a vital and integral role to play in the 21st century world-wide economy. MBEs must prepare to compete in the 21st century economy. Preparation means positioning yourself for accessing capital. Preparation means understanding the value and importance of financial literacy . . . understanding how to excel at running the back room of your business. Preparation means using technology as a business tool for administrative efficiencies, e-commerce, quality control and other solutions.... understanding the value of forming strategic alliances with other partners to help grow your business in size and scale.

The Importance of the American Franchise

Another challenge and potential opportunity for emerging and minority entrepreneurs is the American franchise system. Franchising represents an opportunity to which minority-owned businesses must take advantage. Of the 4.1 million minority firms in the U.S. only 2.7% of these businesses were franchised in 2002. However, minority firms, as a percentage, were more likely to be franchised compared to non-minority firms.¹²

By *race*, franchising is most prevalent among Asian-owned businesses: 3.9 percent of all Asian-owned businesses were operated as franchises in 2002, compared to 3.0 percent of Hawaiian and other Pacific Islanders-owned businesses, 2.3 percent of Black or African American-owned business, and 1.8 percent of White-owned businesses.

Home-based businesses continue to be a niche for minority entrepreneurship. About 43% of minority-owned firms were home-based,

¹² The 2002 SBO data, See also: Ronald N. Langston, MBDA presentation, 47th Annual International Franchise Association Convention, Las Vegas, NV, [Date].

compared to 52% of non-minority firms, in 2002. Asian-owned businesses had the smallest proportion of firms which were home-based, about 28%.

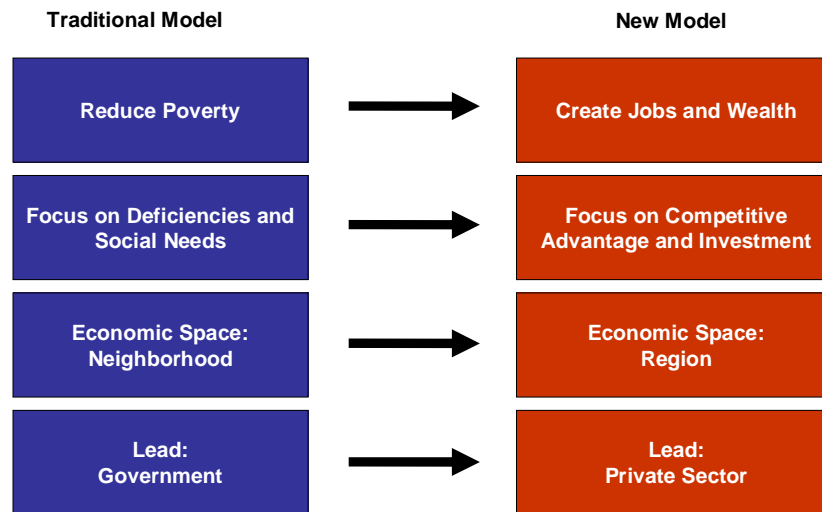
National Apprenticeship Initiative

An ancillary challenge to the long-term growth and enhancement of emerging and minority business entrepreneurs is the development of the next generation of employees and leaders from business and the building trades. There is urgency for skilled labor and for a new generation of innovative and principled business and labor leaders. As I read the literature and data on the number of annual MBA graduates from colleges and universities, I sense the development of minority business leaders has improved. Conversely, today there is a national shortage of skilled labor. I am concerned that as a nation we are not focused on developing and sustaining a skilled workforce and leadership in the labor-service and building trades.

Education and apprentice training in the building and service trades should be a strategic priority. The MBDA welcomes the opportunity to partner with labor unions and the building trades to pursue a national youth apprenticeship program. We would like to establish the foundation for a meaningful partnership that will provide the education, skill training, and future leadership in the building trades to implement America's infrastructure challenges in the 21st century. Any discussion about a national apprenticeship initiative must also be linked to a national dialogue on the importance of challenging the traditional workforce-training model of the 1960's and 1970's with a robust business enterprise model for the 21st Century..

The Traditional Model vs. the Enterprise Model¹³

Inner City Economic Revitalization Premises of the New Model



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The re-focus of the business enterprise model means:

1. Moving away from reducing poverty to creating jobs and wealth
2. Focusing on deficiencies and social needs to a focus on competitive advantage and investment.
3. Viewing the boundaries of our economic space from neighborhood to region. [regional business and entrepreneurial clusters]
4. Embracing the leadership of business enterprise as the primary domain of the private sector and not the government. [faith-based intuitions]

There should be an *intelligent relationship* between industry and commerce, business and government, and non-profit and faith-based institutions. We have failed to stress the need for synergy, alignment and execution among these entities. Recently, I listened to Dr. Rick Warren, Pastor of Saddleback

¹³This graph is from the body of work associated with the ICIC – Inner City 100, Dr. Michael Porter, Harvard University.

Church, Lake Forest, California note “that there may not be a business or factory in every town or hamlet throughout the world, but there is a most likely a church or center of worship.”¹⁴ We must use every asset to strengthen and build upon the Nation’s competitiveness and innovation entrepreneurial reservoir of talent.

The National Demographics

The national statistics reveal between now and 2050, the fastest growing segment of the U.S. population will be among minorities. Equally significant is the growth in the U.S. labor force will largely come from the minority segments of the population. Much of this minority growth will be fueled by immigration. The United States will once again become a *nation of immigrants*. The difference will be the immigration will be comprised of people of color. The challenge for the United States is to embrace the demographic change.¹⁵

Some will fear this change. I say, let us embrace and welcome the change. Some will complain about the burden and costs of immigration or the shifting of minority populations to majority status in some states.

I say the positive rewards of inclusion, diversity and the growth of minority business enterprise will far outweigh the negative externalities based upon fear and ignorance. “The United States more than any other country in the world, looks and speaks like every other country in the world.”¹⁶ This is our strength and competitive advantage in a 21st century world-wide economy.

The Bush Administration will continue to pursue pro-growth policies that foster an environment which encourages entrepreneurship. This pro-growth strategy encourages many benefits: business tax credits, lower interest rates, the elimination of capital gains tax, energy incentives to enhance the preservation of precious natural and environmental resources, a renewed focus on health care, federal procurement and contracting initiatives, and the promotion of new trade

¹⁴ Dr. Rick Warren, Author, *The Purpose Driven Life*, (Zondervan, Grand Rapids, Michigan, 2002), comments from Meet the Press, December 24, 2006, Washington, D.C.

¹⁵ See: Comments by Dr. Matthew Slaughter and Dr. Andrew B. Bernard, Tuck School of Business and National Bureau of economic Research, in: *The Life Cycle of a Minority Owned Business: Implications for the American Economy*, National Minority Business Enterprise Week, 2004 Conference, Washington, D.C.

¹⁶ Quote is attributable to Josette Shiner, former Deputy U.S. Trade Representative at MED Week 2002, September, 2002, Washington, D.C.

opportunities through business-to-business linkages with emerging economies in Africa, Asia, the Dominican Republic-Central America, and the Caribbean.

For example, the MBDA has been successful at linking Small and Medium Enterprises (SMEs) in Africa to MBEs in the U.S. and also building strategic partnerships with the Corporate Council on Africa. We have also taken advantage of utilizing the Overseas Private Investment Corporation (OPIC) and African Growth and Opportunity Act (AGOA) forums to link MBEs on a global level. MBDA has also conducted three business-to-business forums in the Gulf coast. We are optimistic and looking forward to establishing strategic alliances, joint ventures and partnerships between U.S. Minority Business Enterprises (MBEs) and Small and Medium Enterprises (SMEs) among emerging economies in Africa, Asia, the Caribbean and Central America and the Gulf Coast.

I firmly believe like the President, and the Secretary of Commerce, a pro-business, pro-growth strategy and the President's American Competitiveness Initiative is our best hope for a future of prosperity.

I am very pleased to learn about the efforts to prepare minority business owners for the NEXT steps to competitiveness. I applaud your efforts and encourage you to pursue *business-to-business* alliances to compete in the 21st global economy.

So, "let us prove once again to a doubting world and to ourselves, that we have the 'right stuff.' Let us demonstrate by our deeds, not our rhetoric, that we have the skill and courage to reach out to Native peoples, Hispanics, Asians and others from distant lands and faraway shores. Let us of many hues and nationalities inform the doubters that we too speak American."¹⁷

Conclusion

Let there be no doubt in anyone's mind . . . *"the success or failure of minority-owned businesses will increasingly drive the success or failure of the*

¹⁷ Ronald N. Langston, Selected speeches on the State of Minority Business Enterprise 2005-1006.

overall U.S. economy.”¹⁸ That is why the MBDA has deemed minority business enterprise as the national priority, and is committed to the promotion of a strategic focus on innovation and competitiveness.

On behalf of the President of the United States and the U. S. Secretary of Commerce Carlos M Gutierrez, God bless you. Thank you.

Prepared by National Director, Ronald N. Langston with assistance of Kathy Lofton, Special Assistant to the National Director, National Urban Fellow, City University of New York.

¹⁸ Ibid. *The Life Cycle of a Minority-Owned Business: Implication for the American Economy*, Dr. Matthew Slaughter, Tuck School of Business.